



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
S4/11C

16 August 2019

The Chief Executive
All locally incorporated authorized institutions

Dear Sir / Madam,

Frequently asked questions on the Basel III revised standardised approach for operational risk

To promote consistent global implementation of the revised standardised approach for operational risk as published in the Basel III final package in December 2017¹, the Basel Committee on Banking Supervision (“BCBS”) has recently published the first set of frequently asked questions (“FAQs”)² that provides technical elaboration and interpretative guidance of the standards text. Areas covered in the FAQs include:

- (i) treatment of non-performing loans in the Business Indicator (BI);
- (ii) timeline for exclusion/inclusion of losses and BI items after divestiture/deconsolidation and acquisition/merger;
- (iii) conversion of losses from foreign subsidiaries into local currency;
- (iv) treatment of refunds due to overbilling; and
- (v) treatment of losses from outsourced activities.

The revised standardised approach for operational risk will come into effect as part of the Basel III final package on 1 January 2022. The HKMA intends to implement it having regard to the BCBS timetable and will consult the industry on its implementation proposals in due course. In the meantime, AIs are strongly recommended to familiarise themselves with the new requirements under the approach, taking into account the guidance set out in the FAQs, and prepare for any system changes that may be necessary for its implementation in Hong Kong.

¹ Please see <https://www.bis.org/bcbs/publ/d424.htm>

² Please see <https://www.bis.org/bcbs/publ/d476.htm>

Should you have any questions, please feel free to contact Mr Wilson Yim at wcyyim@hkma.gov.hk or Ms Jacqueline Chan at jacqueline_yf_chan@hkma.gov.hk.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

cc: The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Eureka Cheung)